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Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.30 pm	Tuesday 25 March 2014	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative (4)	**Residents' (1)**	**Labour (1)**	**UKIP (1)**
Rebbecca Bennett (Chairman) Melvin Wallace (Vice-Chair) Steven Kelly Roger Ramsey	Ron Ower	Pat Murray	Fred Osborne

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

Heather Foster-Byron

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AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to disclose any pecuniary interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any pecuniary interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 18)

To approve as correct the minutes of the meeting held on 17 December 2013 and the exempt minutes of the same meeting, and authorise the Chairman to sign them.

5 FUNDING STRATEGY STATEMENT (Pages 19 - 66)

To consider the attached report.

6 DEVELOPMENT OF THE COLLECTIVE PENSION INVESTMENT VEHICLE (Pages 67 - 70)

To receive the attached report.

7 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2013/14 (Pages 71 - 94)

To receive the attached report.

8 PENSION FUND PERFORMANCEONITORING FOR THE QUARTER ENDED 31 DECEMBER 2013 (Pages 95 - 108)

To consider the attached report.

9 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

10 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

11 REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING 31 DECEMBER 2013 - HYMANS ROBERTSON

12 PRESENTATION BY ROYAL LONDON ASSET MANAGEMENT

Andrew Beesley
Committee Administration Manager

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MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
17 December 2013 (7.30 - 10.00 pm)

Present:

COUNCILLORS

Conservative Group	Rebbecca Bennett (Chairman), Melvin Wallace (Vice-Chair), Steven Kelly and Roger Ramsey
Residents' Group	Ron Ower
Labour Group	Pat Murray
Trade Union Observers	Andy Hampshire (GMB)
Admitted/Scheduled Bodies Representative	Heather Foster-Byron

Apologies were received for the absence of John Giles.(UNISON)

The Chairman reminded Members of the action to be taken in an emergency.

27 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 30 October, 2013 were agreed as a correct record and signed by the Chairman.

28 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER, 2013.**

Officers advised the Committee that the net return on the Fund's investments for the quarter to 30 September, 2013 was 3.3%. This represented an out performance of 1.1% against the combined tactical benchmark and an out performance of 1.2% against the strategic benchmark.

The overall net return for the year to 30 September, 2013 was 16.1%. This represented an out performance of 3.7% against the annual tactical combined benchmark and an out performance of 17.9% against the annual strategic benchmark.

1. Hymans Robertson (HR)

HR advised that the quarter contained a mix of positive economic news and more nuanced financial events. The Eurozone had emerged from recession, although there remained a wide divergence in the performance of individual members. In the UK, data published in July indicated strong economic growth, prompting the Chancellor of the Exchequer to comment that the economy was 'turning a corner' and to cite 'signs of a balanced, broad based and sustainable recovery.' Positive economic developments were also evident in the US and, to a lesser extent, in Japan.

Notwithstanding positive economic data, action by central banks tended to reflect a more cautious attitude. Short-term interest rates in the UK, Eurozone and US were held at record lows. In the US, the Federal reserve indicated there would be no immediate unwinding of monetary support (currently $85bn a month) a step back in tone from the preceding quarter. In addition, both UK and European central banks provided forward guidance on monetary policy for the first time. The underlying message from the major central banks was, and remained, that economic conditions, whilst improving, still needed very careful management.

Global ten year bond yields rose (Prices fell) but then stabilised. At the end of the quarter, investors were unsettled by concerns that the US might not renew its debt ceiling by the mid October deadline.

The key events during the quarter were:

Global Economy

- Forecasts for UK economic growth were revised upwards by the Bank of England and IMF;
- Global economic growth forecasts were revised down by the IMF;
- China announced a series of measures to boost economic growth;
- Short-term interest rates were unchanged in the UK, US and Eurozone; and
- The Eurozone economic recovery from recession, after four consecutive quarters of economic contraction.

Equities

- The best performing sectors relative t the 'All World' Index were Basic Materials (+3.9%) and Industrials (+2.8%); the worst were Utilities (-3.6%) and Consumer Goods (-2.2%);
- Barclays Bank announced a £5bn rights issue (and a £2bn bond issue) to meet new capital requirements;

- Vodaphone sold its 45% stake in Verizon for $130bn (one of the largest deals in corporate history).

Bonds and Currencies

- UK government bonds (All Stocks) returned +0.5%;
- Corporate issues outperformed government counterparts by a comfortable margin; and
- Sterling strengthened against all major currencies.

The Committee were given details of the performance of the Fund Managers, a summary of which is given in the Exempt minutes. State Street Global Advisors, Baillie Gifford and UBS Triton attended the meeting and presented details of their performance in the third quarter of 2013.

Standard Life had performed well in the quarter producing a return of 10.2% (net of fees). Over the past year the fund had performed well outperforming the benchmark, with a relative return of 10%. However, in line with our decision to invest in dynamic, multi asset mandates, we have now disinvested from Standard Life. The funds have now all been transferred to Barings Dynamic Asset Allocation Fund.

Ruffer continued to perform as expected, returning 11.3% over the past 12 months.

Royal London had enjoyed similar success outperforming the benchmark by 0.6% for the quarter and outperforming the benchmark over the last 12 months, three years and since inception.

2. Baillie Gifford (BG)

James Mowat and Fiona MacLeod attended the meeting on behalf of Baillie Gifford to discuss performance in quarter 3. Performance since inception had been good with the fund (Global Alpha Strategy) outperforming the benchmark by 4%.

The Committee were advised that the transition of funds to the new mandate the Baillie Gifford Diversified Growth Fund had proceeded smoothly and the £70m had been received in three instalments. These funds had been disinvested from State Street, £50m from the global equity portfolio and £20m from the Sterling Liquidity Fund.

The presentation was **noted** and the Chairman thanked James and Fiona for their presentation.

3. UBS Triton Fund (UBS)

   Howard Meaney (HM) (Head of Global Real Estate attended the meeting to deliver a presentation on quarter 3 performance. Since the last meeting with UBS there had been significant inward investment of £197.5m from 3 UK Pension Funds.

   The fund currently comprised 32 assets with a net asset value of £594.4m. The fund was being repositioned through sales and purchases, and there was no redemption queue.

   HM indicated he expected the fund to return 9.5% p.a. The fund had £45m to invest in new assets and some poor performing assets were to be sold.

   The Committee welcomed the turnaround in fortune for this fund and thanked Howard for his presentation.

4. State Street Global Advisors (SSGA)

   Kevin Cullen (Local Authority Relationship Manager) and Ana Paula Harris (Portfolio Strategist) attended the meeting to deliver a presentation on behalf of SSGA.

   The Pension Fund monies were invested in a pooled structure to give the best return with the lowest cost. Since inception the fund had delivered as expected giving a return of -0.02% as compared to the FTSE* All World Index.

   In response to a question from the Committee SSGA advised that whilst the government's proposals for larger /joint pension funds would lead to savings they would not be of the size envisaged by the Government.

   The Committee thanked Kevin and Ana for their contribution.

29 THE ADMISSION OF TRANSFEREE ADMISSION BODIES TO THE LONDON BOROUGH OF HAVERING PENSION FUND

Officers submitted a report concerning the proposed admittance of two Transferee Admission Bodies to the London Borough of Havering's Pension Fund. Under the terms of the Local Government Pension Scheme (Administration) Regulations 2008 where a transferee admission body and the scheme employer undertake to meet the relevant requirements of Regulation 6, an administering authority must admit to the Local Government Pension Scheme (LGPS) the eligible employees of the transferee admission body, and where it does so, the terms on which it does are noted in the admission agreement for the purposes of these Regulations.

Officers advised that investigations had been made to ensure that each body falls within the definition contained in Regulation 6 (2)(a)(i) of the Local Government Pension Scheme (Administration) Regulations 2008 and as such would be eligible to become a transferee admission body. Legal engrossment of the admission agreement is subject to the service transfer taking place.

1. **Sodexo UK and Ireland Ltd**.

   Sodexo are to be appointed Catering Services Contractor to Oasis Pinewood Academy, with the contract due to commence on 1 January, 2014 to 31 August, 2015, with the option to renew for a further 5 years.
   When the contract starts two employees are to be transferred from the London Borough of Havering to Sodexo. The Transfer of Undertakings (Protection of Employment Regulations (TUPE) apply.

   Sodexo intends to allow continuity of LGPS membership for the employees through a transferee agreement with the London Borough of Havering Pension Fund. The agreement will be a closed agreement. Sodexo will be required to provide a bond of £26K. The employer rate will be set at 22.4%.

   This contract is impacted by the New Fair Deal Policy published by HM Treasury on 4 October, 2013.

   The admission of Sodexo UK and Ireland Ltd as transferee body into the London Borough of Havering Pension Fund be **noted** subject to:
      a. All parties signing up to an Admission Agreement; and
      b. An Indemnity or Insurance Bond in an approved form with an approved insurer or relevant institution, being put in place to protect the letting authority/pension fund.

2. **Breyer Group PLC**

   Breyer Group PLC is to be awarded the contract with the London Borough of Havering to provide responsive repairs and maintenance services to Council owned and managed housing stock. The service transfer was scheduled to take place from 6 January, 2014. The contract is initially for a five year period with the option to extend for a further two years.

   The arrangement will involve a second wave TUPE transfer of 30 employees of Morrison Facilities Services, of which 16 are currently members of the LGPS.

   Breyer intends to allow continuity of LGPS membership for the employees through a transferee agreement with the London Borough of Havering Pension Fund. The agreement will be a closed agreement. Breyer will be required to provide a bond of £1,494,000. The employer rate will be set at 23.8%.

The admission of Breyer Group PLC as transferee body into the London Borough of Havering Pension Fund be **noted** subject to:

a. All parties signing up to an Admission Agreement; and
b. An Indemnity or Insurance Bond in an approved form with an approved insurer or relevant institution, being put in place to protect the letting authority/pension fund.

30 **MINISTERIAL STATEMENT REGARDING ACADEMIES AND ACADEMY POOLING**

On 2 July, 2013 the Secretary of State for Education, Michael Gove, presented a Written Ministerial Statement and laid a Parliamentary Minute in the House of Commons, and the House of Lords, setting out details of a guarantee that any outstanding Local Government Pension Scheme liabilities on an Academy's closure would be met by the Department of Education. This guarantee, in the event of an Academy failure, would have a positive impact on other employers in the Fund as it would mean that there was a method for recovering liabilities rather than passing costs on to other fund employers.

The need for the guarantee had arisen as many Academies employer contribution rates were significantly higher than the rate which they were previously paying when under Local Education Authority (LEA) control. This increase might be accounted for by the age and other profile factors of each Academy's membership, but could also be impacted by variations in salary scales.

Some LGPS funds had introduced shorter deficit recovery periods for Academies to reflect that funding from the Department of Education is only guaranteed for 7 years.

Havering Academies have been granted the same pooled assumptions and deficit repayment terms as the Council (over 20 years), the impact of this is to reduce the employer contribution rate for the academies.

Officers advised that the Department of Education and HM Treasury have reserved the right to 'withdraw the guarantee at any time.'

We have:

1. **noted** the ministerial statement and the positive impact it has for other employers in the fund; and
2. **agreed** that there should be no changes to the current academy arrangements for assessing the employer contribution rates.

31 HM TREASURY NEW FAIR DEAL GUIDANCE

We have been advised that the HM Treasury had published, on 4 October, 2013, new guidance setting out a reformed Fair Deal policy. This was a non-statutory policy which set out how pension issues were to be dealt with when staff were compulsorily transferred from the public service to independent providers delivering public services.

Where Best Value and Fair Deal obligations exist – the outsourcing Employer should ensure that staff who were either current members of the Local Government Pension Scheme (LGPS), or who had an entitlement to become a member, on being transferred under TUPE had access to either:

- Continuing membership of the LGPS; or
- A Government Actuary's Department-certified Broadly Compatible Pension Scheme (the outsourcing contract would normally be expected to include a bulk transfer arrangement for accrued LGPS membership), or
- Where Fair Deal only was applied the provisions allow for:
    - Membership of the LGPS through an admission agreement;
    - A Final Salary Defined Benefit pension scheme; or
    - A Defined Contribution/Stakeholder pension scheme where members contributions were matched by the employer up to 6%.

The question for us was what was the likely impact of the New Fair Deal?

- Previously two Academies, neither of whom were Best Value authorities, had outsourced public sector employees to private sector contractors. In the first case the Academy did not seek to tender with the provision of providing the LGPS for transferred public sector employees and it was not known what pension provision had been put in place for the staff who were TUPE'd from the Council. The former council employees were moved to deferred status in the pension fund, which means that the fund liabilities for the former scheme employer are growing, although without increased years, but there is a cash flow impact on the fund due to the loss of the employee and employer contributions. Due to pension increases being greater than salary increases deferred benefits could potentially be greater than continued earned benefits.

    - The second Academy had sought an Admission Arrangement, which we had approved, but this had not been fulfilled by the admission body to date.

The future impact of the New Fair Deal guidance, which came into immediate effect, would be to increase the volume of smaller admission bodies to the fund. Managing admission bodies was resource intensive, together with managing the admission process to ensure correct compliance by contracting authorities. Any potential increase in smaller admitted bodies would impact on the costs of administering the fund, although recent system improvements and future plans to move to self-service should release resources to mitigate any additional resource requirements arising from the guidance.

We have **noted** the new Guidance setting out a reformed Fair Deal Policy published by HM Treasury.

32 THE LOCAL GOVERNMENT PENSION SCHEME (MISCELLANEOUS) REGULATIONS 2012

The Local Government Pension Scheme (Miscellaneous) Regulations 2012 were made on 27 July, 2012 and came into force from 1 October, 2012 but there was a provision made in Regulation 1 for various sub-sections within the regulations to have effect from different dates.

The Miscellaneous Regulations affect the following legislation:

- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006;
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008; and
- The second set of regulations, the Local Government Pensions Scheme (Administration) Regulations 2008.

The Miscellaneous Regulations covered a wide range of mainly unrelated amendments to the Local Government Pensions Scheme Regulations. Whilst some amendments were necessary to remove old provisions and align with legislative changes (automatic enrolment), there were some key changes to the provisions relating to admission agreements in particular.

We were informed of some key changes. The key changes arising from the Miscellaneous Regulations 2012 that required policy change decisions were:

- Early release of benefits;
- Third tier ill health pension; and
- Changes to admission agreements.

The Funding Strategy Statement would need to be reviewed in line with the regulatory changes to ensure that any future approved Funding Strategy Statement was fully compliant with the regulations.

The proposed policy changes relating to admitted bodies would be set out in a new guidance document to be produced for scheme employers. The guidance document would ensure all policies relating to the process for admission to the London Borough of Havering pension scheme were clearly set out, which would aid regulatory compliance by scheme employers and improve administrative procedures.

(a) Early Release of Benefits.

These regulations required the administering authority to introduce a discretionary policy for instances where a scheme member wished to apply for the early release of their deferred benefits but their former employer was no longer an active scheme employer, and there was no successor body. A draft policy would be developed and brought back to the next Committee meeting. The policy would be based on the premise that no costs would fall upon other employers in the Fund, unless there were special factors that justify a departure from this policy.

(b) Third-tier ill Health Pensions.

Previously when someone was awarded a third-tier (temporary) ill-health pension and this pension was stopped, if that individual wanted to bring their benefits back into payment they would suffer full early retirement reductions even if they have enough pensionable service to meet the 'rule of 85'. The Miscellaneous Regulations corrected this unintended unfairness.

Deferred and suspended third-tier ill health retirement members who were aged between 55 and 60 and who wished to opt for early payment were required to obtain the permission of their previous employer. If the employer no longer existed then the member's request could not be considered. To address this, the regulations would now allow the administering authority to exercise the employer discretion where the member's former employer had ceased to be a Scheme employer.

To facilitate this, employers would be required to publish their policy for dealing with applications from deferred members and suspended third-tier ill health members aged between 55 and 60 who were wishing to opt for early payments. Administering authorities would also need to have a policy, as they would be required to deal with applications where the member's employer no longer exist.

When considering this policy we would need to take into account that the early retirement reductions applying where a member was allowed to access their benefits early might not fully address the cost of allowing early payment. In this case the residual cost would fall back on the other employers in the Fund. A policy would be developed based on the approach that every case would be considered upon its merits but applications would normally only be approved where there was no cost to the employer or other Scheme employers in the Fund.

The existing power to bring a deferred benefit into payment where the member was now suffering permanent ill health was extended to cover suspended third-tier ill health cases, providing that the member was permanently incapable of any gainful employment.

(c) Changes to admission agreements.

The amendments made through the Miscellaneous Regulations would apply to admission agreements entered into after 1 October 2012 and there were a number of changes to regulations 6 and 7 of the Local Government Pension Scheme (Administration) Regulations 2008. Admission agreements made before this date were not affected by the amendments.

In the case of potential transferee admission bodies, the letting authority had been required to take actuarial guidance on the potential costs that would arise if the transferee body's admission ceased in circumstances where that body could not address those costs. The letting authority was liable for any pension costs that could not be recovered from the transferee body and so they decided on the level of bond required, we had normally been accepted the highest bond level to minimise risk to the Fund.

The Miscellaneous Regulations required that all new transferee and community admissions entered into on or after 1st October 2012 should have an indemnity or bond, which was our normal practice.

If, however, for any reason it was not desirable that an admission body be required to enter into an indemnity or bond then a guarantee could be provided but only by:

- A person who funds the admission body in whole or in part,
- A person who owns or controls the exercise of the functions of the admission body, or
- The Secretary of State where an admission body was established under an enactment and the enactment empowered the Secretary of State to make financial provisions for the admission body.

It was not clear whether the decision on this requirement was made by the admission body or the administering authority. This would need to be specified in the admission agreement but we presumed it to be a decision of the administering authority. The letting authority would clearly have an interest in the proposed transferee admission body using the means of security which added the least cost to the provision of the services, particularly Academies who tender for catering services. However where the letting authority was not also the administering authority it might be more difficult for the admission body to persuade the pension fund to accept a guarantee in place of a bond or indemnity.

As administering authority, we would need to consider what our policy and procedure would be in relation to guarantees, particularly what their requirements would be and what methods of assessment would be required to ensure we were satisfied that the guarantors were able to afford the commitment. Officers would report back to a future meeting on these issues.

In addition, the Miscellaneous Regulations required that the prospective admission body carried out the assessment, taking account of actuarial advice, of the level of risk exposure arising on insolvency, winding up or liquidation. The assessment must, however, be to the satisfaction of the administering authority, and in the case of a transferee admission body, the letting authority.

The Miscellaneous Regulations go on to require that "where the level of risk identified by the assessment WAs sufficient to require it" the admission body would need to enter into an indemnity or bond to the required value. The existing limitations on who could provide an indemnity or bond were retained.

The new requirements, which were substantially different from the previous provisions, would cause a significant increase in the work involved in admitting new bodies.

The Miscellaneous Regulations did not require that the prospective admission body obtain their actuarial valuation from the Fund Actuary. It was likely that some would use other actuaries whose methodologies and assumptions differed from those of the Fund Actuary.

In order to ensure that the assessment was acceptable, the Fund would also still have to obtain advice from the Fund Actuary. It would be an unacceptable loss of cash from the Fund and an impact on existing employers if the costs of obtaining actuarial advice in order to satisfy itself with regards to the assessments were not passed on to the prospective admission body.

Actuarial assessments carried out by other firms of actuaries, or by the Fund Actuary if the admission body had specified different assumptions, were likely to result in very different outcomes from the figures calculated by the Fund Actuary using the assumptions from the last triennial valuation (or even the current triennial valuation).

There was a risk that the potential admission body's assessment was materially different from the assessment calculated by the Fund Actuary. The prospective admission body might not be willing to accept a higher figure calculated by the Fund Actuary and any ensuing dispute could delay admission. Further, the admission body might dispute that the level of risk was sufficient to require them to put in place a bond or indemnity.

The Regulations required that the assessment was to be carried out to the satisfaction of the administering authority. It would be necessary for the Committee to ensure that it was satisfied with the value of bond in place and that the position of other employers in the Fund was protected.

Issues over bond value could emerge at the stage that bonds were reassessed, even where they were originally successfully agreed. If an issue arose over bond value when the admission was in place the only sanction the Fund would have, if the admission body refused to renew the bond or indemnity, or was unwilling to put in place a bond or indemnity of adequate value, was to terminate the admission.

Letting Authorities might have to review their contract terms and conditions to ensure that this situation was included as a breach of contract, although ceasing contracts during the agreed period of operation would definitely create major service provision continuity issues and Administering Authorities could be placed in conflict with their service provision and Pension Fund responsibilities. If an admission agreement was terminated early there would be additional costs to obtain closing valuations, difficulties might arise in collecting any deficits and administration work and costs for the Fund would increase.

A further change in the Regulations also required a separate admission agreement to be in place where a transferee admission body was performing functions of a scheme employer in more than one contract (for contracts entered into from 1 October 2012). This was so it was clear when separate admission agreements were entered and to make sure that there was an obligation on the contractor to make a cessation payment when one contract ended. The start and end dates of different contracts would not be the same and there might otherwise be no obligation on the contractor to make a cessation payment where the existing admission agreement would continue by virtue of another contract.

(d) Open or closed agreements.

Admission agreements might be open, nominated or closed.

The status of open, restricted or closed admission agreements had not changed within the 2012 regulation changes, but currently we seek to agree admission for only closed agreements. This policy does not comply with the Pension Administration regulations. An employer guide to aid bodies seeming admitted body status was currently being produced. In order to ensure the guidance document complied with the Regulations this issue was being brought to our attention. An admitted body guidance document would aid overall compliance by all scheme employers with the regulations.

An open agreement potentially allowed any employee of the contractor involved in the provision of the outsourced services (and only the outsourced services) to become a member of the Scheme i.e. new recruits the contractor employed in the provision of the outsourced service.

A nominated agreement allowed a specified group of employees, named in the admission agreement, eligibility to become a member of the Scheme at any time.

A closed agreement related only to a fixed group of employees. Only those employees who transferred to the contractor from the outsourcing employer could remain or be members of the Scheme. This included staff not currently in the Scheme at the contract start date but who would retain the right to join the Scheme once they were transferred.

A review of the Administration Regulations indicated that the decision whether an admission agreement was open or closed rested with the admission body and not with the administering authority. This was for the following reasons: -

- Transferee admission bodies were defined in Regulation 6(2)(a) of the Regulations.
- Regulation 6(11) provided that where the admission body agreed to meet the requirements of Regulation 6 and Regulation 7 and the scheme employer agreed to meet the requirements of regulation 6 (i.e. to be a party to the admission agreement) the administering authority <u>must admit</u> to the Scheme <u>the eligible employees</u> of the transferee admission body <u>designated by that body</u> (i.e. designated by the admission body). Regulation 6(12) provided that only employees employed in connection with the provision of a service were eligible to be designated.
- Regulation 7(2) provided that "A person employed by a community admission body or <u>an eligible person employed by a transferee admission body</u> <u>may only be a member if the person, or class of employees to which the person belongs, is designated in the admission agreement by the body as being eligible for membership of the Scheme.</u>
- Paragraph 5 of Schedule 3 (contents of admission agreements required the admission body to give an undertaking and warranty that all its employees who were members of the scheme were employed in the provision of the service (the warranty would relate to employees admitted at the date of the agreement and the undertaking would relate to employees admitted at a future date.

Taking these provisions together it was clear that future employees providing the service were eligible to be designated as members of the pension scheme. Whether they were in fact able to join the scheme would depend on whether their employer designated them, or designated the class of employees to which they belong, for admission to the scheme. The administering authority had no discretion in this matter as it must admit eligible employees designated by the admission body.

The consequence of this was that although we might have a policy only to accept closed admission agreements, this policy could not be enforced as it did not comply with the obligations of administering authorities under the regulations. There might be financial and other reasons why admission bodies might prefer closed agreements, but this was entirely a matter for the admission body and not a matter for the council.

The impact of the review of the regulations regarding closed or open agreements was that the current policy needed to be reviewed to fall in line with regulations. The policy and impact of accepting open admission agreements would need to be included in any future Funding Strategy Statement.

1. We have **noted** the changes contained in the Miscellaneous Regulations.

2. We have **noted** that a further paper would be brought back to Committee with a draft Administering Authority discretion policy on Early Release of Benefits for deferred scheme members where a scheme employer was no longer an active body and there was no successor.

3. We have **agreed** that an Administering Authority discretion policy for applications from deferred members and suspended Tier 3 ill health members aged between 55 and 60 who are wishing to opt for early payment will be submitted to the next meeting of the Committee. Such policy should be based upon applications being considered individually and a decision made on the merits of each case, and that normally applications would only be approved where there would be no cost falling upon other employers in the Fund.

4. We have **agreed** that a further paper be brought back to Committee with a draft policy on accepting guarantee agreements, together with a draft 'Guarantee Admission Agreement'.

5. We have **agreed** a policy that prospective admission bodies must be prepared to meet the actuarial costs and administrative costs incurred by the Fund in assessing the required bond or indemnity, delivering the administration service in processing admission

agreements, assessing guarantors, reviewing bond and indemnity levels and triennial valuation.

6. We have **agreed** a policy that a bond or indemnity that was satisfactory to the Fund, or if so agreed by us, a guarantee, must be in place before the admission agreement was made.

7.
8. We have **agreed** a policy that the admission agreement might cease at the discretion of the Committee if:

   - A replacement bond or indemnity that was satisfactory to the Pensions Committee was not in place at the time the existing bond or indemnity expired;
   - If a guarantee was not in place at the point when the existing guarantee was reviewed.

9. We have **noted** the Regulations which required us to accept open, nominated or closed admission agreements.

33 THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2014

The Local Government Pension Scheme (LGPS) 2014 was due to come in to effect on 1 April, 2014. The main design of the new scheme was as follows:

- To be a Career Average Re-valued Earnings (CARE) scheme;
- The accrual rate to be 1/49th for the main section;
- Each members Normal Pension Age (NPA) to be in line with State Pension Age (SPA);
- New salary bandings to be introduced extending the current 7 bands to 9, with an increase to the % paid for those earning over £43,000 per year;
- Employee contributions to be paid on all salary received, which would include additional hours for part timers, and any non-contractual overtime for full timers;
- Part time scheme members would also only pay contributions on their actual pay and not the whole time equivalent;
- There was the introduction of a 50:50 section for those members thinking of opting out;
- Retirement benefits for all membership prior to 1 April 2014 were protected, including any remaining “rule of 85” protection; and
- Scheme members outsourced under a TUPE arrangement had the right to stay in the LGPS on the first and any subsequent transfers. Currently this was the choice of the new employer.

We have **noted**:

1. The report and its contents, and the potential financial impact the scheme could have on the Havering Pension Fund;
2. That some final details of the scheme were awaited; and
3. A further report will be brought forward regarding impact and implications when further guidance was released.

34 **EXCLUSION OF THE PUBLIC**

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

35 **ADMISSION OF TRANSFEREE ADMISSION BODY TO THE LONDON BOROUGH OF HAVERING PENSION FUND**

Officers in formed the Committee that matters had changed with regard to the third organisation seeking admission to the London Borough of Havering's Pension Fund. Further details are contained in the minute of the exempt part of the meeting.

36 **PENSION FUND ILL HEALTH LIABILITY INSURANCE**

We have be advised of the details of an insurance product developed by Legal and General in association with Hymans Robertson to offer Ill Health Liability Insurance that seeks to minimise the impact of an Ill health Early Retirement costs on participating employers in the Havering Pension Fund.

In 2008 the Local Government Pension Scheme introduced new rules that changed the level of enhancements paid to employees when they retire due to ill health. The new rules meant that benefits were targeted to those whose needs were greater, criteria and levels of benefit are shown below:

a) Tier 1 – If there was no reasonable prospect of being in gainful employment before the age of 65 employees would receive an immediate payment with service enhanced to Normal Pension Age.
b) Tier 2 – If it was unlikely that an employee would be capable of gainful employment within three years of leaving they would receive an immediate payment with 25% service enhancement to Normal Pension Age.

c) Tier 3 – If it was likely that an employee would be capable of gainful employment within three years of leaving they would receive a temporary payment of pension for up to three years.

Should any of the other employers who are members of the Pension Fund wish to take up this insurance they should be reminded that the Council are not involved in this venture and do not promote its use.

We have **agreed** not to adopt the proposed Ill Health Liability Insurance.

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Chairman

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **25 March 2014**	**REPORT**

Subject Heading:	**FUNDING STRATEGY STATEMENT**
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
CMT Lead	**Andrew Blake Herbert**
Policy context:	Administration Authority must prepare, maintain & publish a statement setting out their Funding Strategy in accordance with regulations
Financial summary:	None directly

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

The Funding Strategy Statement (FSS) is a Statement that has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997.

The Statement sets out the objectives of the London Borough of Havering's strategy, in its capacity as Administering Authority, for the funding of the London Borough of Havering Pension Fund.

RECOMMENDATIONS

That the committee:

1. Agree the Funding Strategy Statement.

REPORT DETAIL

1. The Funding Strategy Statement (FSS) is a Statement that has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme (LGPS) Regulations 1997.
2. The Statement sets out the objectives of the London Borough of Havering's strategy, in its capacity as administering authority, for the funding of the London Borough of Havering Pension Fund.
3. As required by Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the Administration Regulations), this Statement is kept under review and revised as appropriate.
4. In preparing the FSS, the administering authority has had regard to:

    - the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations) and,
    - guidance published by CIPFA updated in 2012. This is the framework within which the Fund's Actuary carries out triennial valuations to set employers' contributions and provides recommendations to the administering authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

5. The FSS is reviewed in detail at least every three years as part of the triennial valuation. This statement was reviewed during the revaluation process which commenced on the 31 March 2013 with the results published by 31 March 2014.

6. In line with LGPS Regulations the Administrating Authority is consulting with all its participating employers in the Fund and all responses should be considered by the administrating authority. The DRAFT version of the Funding Strategy Statement was distributed to all participating employers in the fund on the 27 February 2014 for comments. Closing date for the consultation is the **25 March 2014**.

7. Any comments received from the other employers in the fund will be reported to members on the night of the meeting.

8. Following the end of the consultation period and the Committee's decision the FSS will be updated where required and published.

9. The DRAFT FSS is attached as **Appendix A** and will be effective from **1 April 2014.**

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly, however the objectives of the Fund's strategy is to ensure the long term solvency of the Fund. This will ensure that sufficient funds are available to meet all members'/dependents' benefits as they fall due for payment.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

None arise from this report.

BACKGROUND PAPERS

Background Papers List
DRAFT Funding Strategy Statement (February 2014)

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HYMANS ROBERTSON

London Borough of Havering Pension Fund

DRAFT Funding Strategy Statement

February 2014

Steven Law

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

PUBLIC SECTOR

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DRAFT Funding Strategy Statement PAGE

Appendices

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Havering Pension Fund ("the Fund"), which is administered by London Borough of Havering ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2014.

1.2 What is the London Borough of Havering Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees and those employed in similar or related bodies across the whole of the UK. The Administering Authority runs the London Borough of Havering Fund, in effect the LGPS for the London Borough of Havering area, to make sure it:

- receives the proper amount of contributions from employees and employers and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives) and to their dependants (as and when members die) as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix A.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers' contributions; and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix B.

The FSS is a summary of the Fund's approach to funding its liabilities and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policy on admissions;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current employee, former employee or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits with the other competing demands for council money; and
- a Council Tax payer: your council seeks to strike the balance above and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. who is responsible for what;

B. the regulatory background, including how and when the FSS is reviewed;

C. some more details about the actuarial calculations required;

D. the assumptions which the Fund actuary currently makes about the future; and

E. what issues the Fund needs to monitor, and how it manages its risks;

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Debbie Ford in the first instance at e-mail address Debbie.Ford@havering.gov.uk or on telephone number 01708 432569.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix C).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix D.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated [TBC], including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies. In addition, the new academies and maintained schools are tendering for bought in services (e.g. catering) which will extend further the admitted bodies following the New Fair Deal (October 2013).

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as foundation schools are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme. The New Fair Deal gives any council staff providing services under contract to certain maintained schools (including Foundation schools), who are TUPE'd to another contractor, the right to remain in the LGPS. This would be through an admission agreement.

Other employers are able to participate in the Fund via an admission agreement and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities while TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

The extension of TABs, particularly for low value contracts, can expose both the scheme employers and the other employers in the Fund to risk. The risk from Academies is partly offset by the Secretary of State guarantee.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer. A risk assessment will take into account such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix B.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation");
- the use of extended deficit recovery periods;
- the phasing in of contribution rises or reductions;
- the pooling of contributions amongst employers with similar characteristics; and/or
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, with advice from the actuary, adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than their underlying contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term; and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies	
Sub-type	**Local Authority**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**Open to new entrants**	**Closed to new entrants**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix D)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix D)	
Future service rate	Projected Unit Credit approach (see Appendix C – C.2)				Attained Age approach (see Appendix C – C.2)	Projected Unit Credit approach (see Appendix C – C.2)	Attained Age approach (see Appendix C – C.2
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No	
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	15 years	15 years	Outstanding contract term	
Deficit recovery payments – Note (d)	Monetary Amount or percentage of pay as appropriate						
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority				Reduce contributions by spreading the surplus over the remaining contract term	
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)				None	
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract	
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)	

Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).	Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on a basis appropriate to the circumstances of cessation – see Note (j).

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate or the employer is likely to lose its last active member within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set the employer's contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies) or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4) the Administering Authority has agreed a stabilisation mechanism with the Fund Actuary taking into account a number of factors.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will be set as annual monetary amounts. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments as a percentage of pay instead, for instance where:

- there has been a significant increase in payroll due to auto-enrolment, or
- the employer has an increase in payroll due to significant transfers into their portion of the Fund.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, failure to pay contributions or to arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion; and

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion.

e) Therefore, new academies may start with a deficit, depending on market conditions, which will be recovered over the same period as the council.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies and will be reflected in a subsequent version of this FSS. In particular, policies (c) and (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer and will be reassessed at least triennially.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. Clearly, as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor; subject to complying with the Administering Authority requirements regarding guarantees, indemnities or bonds to minimise the risk to the other employers in the Fund. In particular there are three different routes that such employers may wish to adopt (forms of 'pass-through' arrangements):

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- A TAB reaching the end of their contract;
- The last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) For a TAB reaching the natural end of their contract the cessation valuation will normally be calculated using the ongoing basis as described in Appendix D;

b) For a TAB leaving the Fund prematurely (e.g. due to insolvency), the cessation valuation will normally be calculated using the "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy;

c) For non-TAB bodies, where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix D;

d) Alternatively for non-TAB bodies, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due and this is within the terms of the guarantee;

e) For non-TAB bodies, where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Any shortfall arising from an early termination of an agreement would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases as the Body would have no contributing members.

All TABs would have a cessation valuation carried out at the normal end of the contract period. Any sums due to the Fund to meet shortfalls at this time would require immediate payment. These sums may be subject to a 'pass-through' arrangement with the Scheme employer but may not be covered by a bond, indemnity or guarantee.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to:

- a suitable bond;
- a legally-binding guarantee from an appropriate third party;
- tripartite admission agreement with the contractor or scheme employer in place of a guarantee; and
- security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

Employers will usually have an 'ill health allowance'. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged; and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage, premium terms or if the policy is ceased.

3.9 Employers with no remaining active members

In general, an employer ceasing in the Fund due to the departure of the last active member will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of following situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund; or

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and/or
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years and continues to receive contribution and other income. All of this must be invested in a suitable manner which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see D3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see B1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;

- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Key Risk and Controls

The key types of risk specific to the FSS that have been identified are:

- Financial (including investment risk);
- Demographic;
- Regulatory; and
- Governance

The measures in place to control the key risks to the Fund are detailed in Appendix E.

Appendix A – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

A1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

A2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

A3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

A4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund; and
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix B – Regulatory framework

B1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

B2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on the 27th February for comment;

b) Comments were requested by the 25th March 2014;

c) Following the end of the consultation period the FSS was updated where required and then published, in [DATE].

B3 How is the FSS published?

The FSS is made available through the following routes:

- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives.
- A full copy is available on the Council's website. Our website follows the latest accessibility standards and meets, if not exceeds, the 'AA' (or 'AAA') standard of the Website Accessibility Initiative (WAI) Guidelines published by the World Wide Web

Consortium (W3C). Text can be expanded in size and BrowseAloud is available to download.

- Copies sent to investment managers and independent advisers; and
- Copies made available on request.

B4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;
- amendments affecting only one class of employer would be consulted with those employers; and/or
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the [Pensions Committee] and would be included in the relevant Committee Meeting minutes.

B5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents are available on request.

Appendix C – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix Eonsiders these calculations in much more detail.

The calculations involve actuarial assumptions about future experience and these are described in detail in Appendix D.

C1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

C2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix D), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

C3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see C5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix D. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

C4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;

- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death; and/or
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

C5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix D – Actuarial assumptions

D1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

D2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

D3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to the retail prices index (RPI). This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at CPI plus 1.5% per annum (equivalent to RPI plus 1% per annum at the time).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the CMI2010 "Peaked" projections with a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is broadly neutral when considering the average number of years of life expectancy. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix E – Key risks and controls

E1 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance. Engage an independent investment advisor.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Risk	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions – please refer back to Section 3.1.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Academy school ceases due to failure.	The Fund seeks a cessation valuation and makes a claim to the Secretary of State for Education under the Academies guarantee.
Admission Bodies failure.	The Fund will seek to have in place a bond/indemnity and/or 'pass-through' arrangement with scheme employer or a tripartite admission agreement.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life

Risk	Summary of Control Mechanisms
	expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, seek monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Risk	**Summary of Control Mechanisms**
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers sponsoring admitted bodies to inform it of forthcoming changes.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from

Risk	Summary of Control Mechanisms
	various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix F – Glossary

Actual Contribution Rate	The contribution rate payable by each individual **employer**. For more details (see 3.3).
Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Bond/Indemnity	To cover early termination of a contract due to, but not limited to, • the funding strain arising from the early payment of liabilities that will arise as a consequence of redundancy if the Employer goes into liquidation, insolvency or winds up. Employees over age 55 are eligible for immediate payment of pension in the event of being made redundant; • any general funding shortfall, arising from variations between experience and assumptions used when determining the ongoing Employer's contribution rate; and • a provision to cover the potential liability due to adverse market conditions over the period until the next actuarial valuation. This bond does not cover any final cessation payments at the end of a contract.
Closed to new entrants	Only existing LGPS members are covered by the admission agreement and hence are eligible to participate in the Fund ("*Closed* Agreement").
Cessation Valuation	At the natural end of a contract or when the last active member of an Employer retires, a cessation valuation is carried out to determine the final contribution due from the Employer. The final contribution due may be subject to a 'pass-through' arrangement with the scheme employer.
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.

Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's. This may be evidenced by a Combined Committee report, tripartite admission agreement or separate guarantee agreement subject to a financial review.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. The letting employer will meet the actuarial fees for setting contribution rates and any bond reviews.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Open to new entrants	New recruits as well as existing LGPS members are covered by the Admission agreement and hence are eligible to participate in the Fund ("Open Agreement").
Pass-through	A risk sharing agreement between the letting employer and the contractor. Further details can be found in 3.3 Note (i).

Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.

Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **25 March 2014**	**REPORT**

Subject Heading:	**Development of the Collective Pension Investment Vehicle**
Report Author and contact details:	Mike Board Corporate Finance and Strategy Manager 01708 432217 mike.board@havering.gov.uk
Policy context:	Pensions Investment Strategy
Financial summary:	The Council will make an initial contribution of £1 in the share capital of the ACS. Savings from management fees net of running costs are expected to be achieved from the creation of this new investment vehicle.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[x]
High customer satisfaction and a stable council tax	[x]

SUMMARY

To advise the Committee of recent developments for the creation of a Collective Pensions Investment Vehicle across London and of the opportunity for the Council to participate in its development.

RECOMMENDATIONS

The Committee is asked to comment and note the arrangements for the creation of a Collective Investment Vehicle across London and that the Council will be considering a report on 26th March which recommends that the London Borough of Havering Pension Fund participates in this new arrangement.

REPORT DETAIL

On the 11 February 2014 the Leaders Committee of London Council's approved a report and the underlying business case supporting the creation of a Collective Investment Vehicle (CIV) across London. All London Boroughs have been invited to join on a voluntary basis.

The Leaders Committee have endorsed the following in order to establish the CIV.

a) A private company limited by shares be incorporated to be the Authorised Contractual Scheme Operator (ACS Operator)

b) Local Authorities wishing to participate will :
   - become shareholders in the ACS Operator
   - contribute £1 to the ACS Operator as initial share capital.
   - Appoint an elected Councillor to act for the Local authority in excercising its rights as a shareholder of the ACS Operator.

c) A new Joint Committee (The Pensions CIV Joint Committee) will be established to act as the representative body for those London Boroughs wishing to participate in the arrangement.

d) All London Authorities were asked to give their responses by 14th April 2014 indicating whether the wished to participate in the CIV.

The following overarching principles were adopted during the development of the proposed structure.

- Investment in the ACS should be voluntary. A borough should be able to decide they do not wish to participate, or to the extent they initially decided to participate, to choose to withdraw their investment.

- If a borough chose to invest, it will be able to choose which asset classes to invest into, and how much they might invest into each asset class.

- The boroughs should have sufficient control over the ACS Operator, in order to be assured that it will be acting in their best interests.

- The ACS Operator would provide regular information to participating boroughs regarding the performance of managers, investment options, and other areas, so that information continues to be available to the same extent it is currently in order for boroughs to make investment decisions.

- Authorities seeking to invest in the ACS will also take a shareholding interest in the Operator (and have membership of the Pensions Joint committee).

- The ACS will not increase the overall investment risk faced by boroughs.

Assuming that a minimum number of London boroughs have indicated their willingness to participate by 14th April the process of establishing the ACS operator can commence. It is expected that the new ACS would be incorporated around mid Summer and the ACS launched in 2015 subject to Financial Conduct Authority approval. London authorities who did not sign up to the initial structure are expected to have further opportunity to participate before the ACS is launched.

A report will be made to Full Council on 26th March recommending that the London Borough of Havering participate in these arrangements. On the creation of the ACS the Pensions Committee would determine the value timing and nature of any investment in the vehicle.

IMPLICATIONS AND RISKS

Financial Implications and risks:

The Council will contribute £1 in initial share capital. However, further contributions will be required to meet the initial set up costs.
Initial financial implications presented to London Councils suggest that savings will be achieved in management fees. These are expected to outweigh the costs of administration and still produce a net gain for member authorities. The exact position will be dependant upon a number of factors including the number of participating Councils and the sums invested in the ACS.

Whilst the Government is expected to support this form of partnership arrangement there remains a risk that it will produce alternative proposals to merge Local

Authority Pension funds. This matter has been the subject of extensive consultation by the Government although there are no plans to bring forward legislation on this matter at present

Legal Implications and risks:

A decision to enter into the agreement for the ACS and to become a shareholder in the ACS operator company (which will be a company wholly owned by the member Councils) has limited legal implications for the Council as it gives the Council the opportunity to invest via the ACS, but not a legal commitment to do so. However it is clear that the intention is that members would make some use of the facility, and it is probable that it would be in the financial interest of the pension scheme to place some funds with the ACS, particularly if it's size enables it to obtain better deals with active pension fund managers. However it's existence will not absolve the pension committee from reviewing performance of the fund, it would switch from fund managers to the ACS. There will also be a need to ensure that there isn't a conflict of interest for whichever councillor is the Council's representative on the proposed joint committee, but that can be addressed when selection occurs.

Human Resources Implications and risks:

None arising directly from the consultation.

Equalities implications and risks:

None arising directly from the consultation.

BACKGROUND PAPERS

Havering
LONDON BOROUGH

PENSIONS COMMITTEE **25 March 2014**	**REPORT**

Subject Heading:	**BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2013/14**
Report Author and contact details:	Contact: Debbie Ford Designation: Pension fund Accountant Telephone: (01708) 432569 E-mail Address: debbie.ford@havering.gov.uk
Policy context:	A Business Plan incorporating training demonstrates compliance against Myners principle for effective decision making
Financial summary:	Training costs are met from the Pension fund

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

This report sets out the work undertaken by the Committee during 2013/14 and the plan of work for the following year (2014/15) along with an assessment of the training requirements for Members of the Committee. This will form the basis of the Pension Fund Business Plan.

This report explains why a Business Plan is needed and what it should contain.

RECOMMENDATIONS

1. Members to agree the Business Plan/ Report of the work of the Committee (See Appendix A) and refer it to full Council for consideration.

2. Members consider and agree the training proposals, identifying and incorporating any other needs (Paragraph 6 refers).

REPORT DETAIL

1. Each administrating authority is required by regulation 12 (3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to include in its Statement of Investment Principles the extent to which the authority's policy complies with guidance given by the secretary of state. Compliance is measured against the six principles set out in the Myners Principles.

2. In a letter from the Department of Communities and Local Government (DCLG) to administering authorities dated 14 December 2009 reference is made to using guidance as issued by Chartered Institute of Public Finance and Accountancy (CIPFA) on 11 December 2009. This is a guide to the application of the Myners Principle and includes suggested best practices that could be adopted to demonstrate compliance.

3. In Myners Principle 1: Effective Decision Making - suggested best practice is the creation of a Business Plan and a Training Plan. The Pensions Committee has, in recent years, prepared a report that has covered both Committee activities, including training and the general performance of the Fund. The latter is now a statutory requirement and will be prepared as part of the annual accounts process and included in the Annual Report. It is, however appropriate to continue to prepare a separate report on the activity of the Committee on an annual basis and this will be adopted as the Business Plan. The Business Plan will incorporate the Training Plan. This would also demonstrate compliance against Myners Principles 1: Effective Decision making.

4. CIPFA guidance suggests that the Business Plan is submitted to the committee for consideration and should contain:

   - Major milestones & issues to be considered by the committee
   - Financial estimates – investment and administration of the fund
   - Appropriate provision for training

- Key targets & methods of measurement
- Review level of internal & external resources the committee needs to carry out its functions
- Recommended actions to put right any deficiencies.

5. It is important that all the Members of the Committee are adequately trained and briefed to make effective decisions and that members are aware of their statutory and fiduciary responsibilities and achieve the terms of reference of this Committee which are:

   1. To consider and agree the investment strategy and statement of investment principles (SIP) for the pension fund and subsequently monitor and review performance
   2. Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
   3. To appoint and review the performance of advisers and investment managers for pension fund investments
   4. To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7,12 or 24 of the Superannuation Act 1972.

6. Training and development will be held having regard to the work plan as shown in **Annex C** of **Appendix A**. Members completed the CIPFA Knowledge and Skills Framework self-assessment questionnaire and this was used to target training. The training undertaken can be seen in **Annex B** within **Appendix A.**

7. It is anticipated that new Governance arrangements for the Local Government Pension Scheme (LGPS) will be introduced during 2015. This could result in a change to the Committee structure. Regardless of the Committee structure the new Code of Practice will include a legal requirement for members of the Pension Committee/Board to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Committee.

8. There is also a possibility that following the local elections in May 2014 we could see a change in the Committee membership. In this event the training plan will be resubmitted once the new Committee has been established

9. The Fund will continue to use the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. In addition to the cyclical training that the Committee will have over the lifetime of their membership, training will be provided in the areas where it has been specifically requested or has been identified as required.

10. The cyclical training that is already being provided will be reviewed against the requirements in the new Code of Practice once it is finalised and the training programme will incorporate any areas not currently covered.

11. In line with the above, a report is attached as **Appendix A** and will be presented to the Full Council meeting being held in March 2014.

IMPLICATIONS AND RISKS

Financial implications and risks:

1. Training costs are met from the Pension Fund directly or via the Advisor Fee.
2. There is a considerable risk of poor decision making if Members of the Committee are not adequately trained.

Legal implications and risks:

The specialist training of those Members who oversee the administration of the Council Pension Scheme is highly desirable in order to help show the proper administration of the scheme. The Council's Constitution recommends that the Membership of the Pension Committee remains static for the life of the Council for the very reason that Members need to be fully trained in investment matters. The life of the Council is considered to be the four year term. The requirements around training and competence of those in charge of pension schemes is likely to increase given forthcoming planned changes to the general pension regulatory framework.

Human Resources implications and risks:

None arising directly.

Equalities implications and risks:

None arising directly.

BACKGROUND PAPERS

CIPFA Guide investment decision making and disclosure (Dec 09)

APPENDIX A

Havering
LONDON BOROUGH

HAVERING PENSION FUND

BUSINESS PLAN/REPORT ON THE WORK OF THE PENSIONS COMMITTEE DURING 2013/14

INTRODUCTION

The Havering Pension Fund (the Fund) provides benefits to Council employees (except teachers). The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. It is therefore beneficial to issue a Business Plan/Annual report to all Council Members on the Havering Pension Fund and the work of the Pensions Committee.

The Business Plan looks forward over the next three years and will be reviewed and updated annually.

This report also covers the period 1st April 2013 to 28th February 2014 and outlines:

- The work of the Pensions Committee
- Key issues arising during the course of the year

The financial position and details of the performance of the Havering Pension Fund for 2013/14 is featured as part of the formal Annual Report of the Fund itself and not included here. The Annual Report is prepared later in the year when the pension fund accounts have been finalised.

BACKGROUND TO THE PENSION FUND

The Council is an Administering Authority under the Local Government Pension Scheme Regulations and as such invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is financed by contributions from employees, employers and from profit, interest and dividends from investments.

The Pension Fund has a total of 28 employers, of which the London Borough of Havering is the largest. The other employers in the fund are made of up of 20 Scheduled bodies (Academies and Further Education bodies) and 7 Admitted bodies (outsourced contracts).

The Council has delegated the responsibility for investment strategy and performance monitoring to the Pensions Committee.

The Fund's Actuary (Hymans Robertson) carried out a triennial valuation during 2013/14 based on data as at 31 March 2013. The main purpose of the valuation is to calculate the funding position within the Fund and set employer contribution rates for 2014 to 2017. The last valuation was undertaken at 31 March 2010 and a comparison of funding levels can be seen below:

Summary

Valuation date	31 March 2010	31 March 2013
Total Liabilities	£588.6m	£752.1m
Market Value of Assets	£360.9m	£460.9m
Surplus/(deficit)	£227.7m	£291.2m
Funding Level	**61.3%**	**61.2%**

The table shows that whilst the funding level has not changed the value of the deficit has increased. This is primarily driven by the change in the value of the liabilities which has been calculated on a set of assumptions used by the Fund's Actuary. The asset returns were higher than expected but not enough to offset the growth in liabilities.

The Havering Pension Fund has adopted a benchmark for the overall fund of Gilts + 1.8% (net of fees). The Fund now has seven fund managers (who have specific mandates) and performance is monitored against an agreed benchmark.

In 2013/14, as at the end of December quarter, the rolling 12 month return on the fund's investments was 15.8% (10.5% at the same period in 2012/13). This represented an over performance of 2.3% against the tactical benchmark (1.3% at the same period in 2012/13) and an over performance of 19.2% against the strategic benchmark (4.4% at the same period in 2012/13).

The long term strategy of the fund was to reduce exposure to equities and invest in Multi Asset strategies. During 2013/14 the implementation of the Fund's restructure was completed, in line with the March 2013 Statement of Investment Principles, following the appointments of the Multi Asset mandates in September 2013. The two managers who were appointed commenced trading in December 2013. The following table reflects the asset allocation split and targets against their benchmarks:

Manager and % of target fund allocation	**Mandate**	**Tactical Benchmark**	**Out performance Target**
State Street (SSgA) 8%	UK/Global Equities - passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
Baillie Gifford Street 17%	Global Equities - Active	MSCI AC World Index	1.5 – 2.5% over rolling 5 year period
Royal London Asset Management 20%	Investment Grade Bonds	• 50% iBoxx Sterling Non Gilt Over 10 Year Index • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	0.75%
UBS 5%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer 15%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%.	To outperform the benchmark
Barings – Dynamic Asset Allocation Fund 20%	Multi Asset	Sterling LIBOR (3 months) +4%	To outperform the benchmark

Manager and % of target fund allocation	Mandate	Tactical Benchmark	Out performance Target
Baillie Gifford – Diversified Growth Fund 15%	Multi Asset	UK Base Rate +3.5%	To outperform the benchmark

Fund Managers present performance updates on a quarterly basis. They report every 6 months at the Pensions Committee and on alternate quarters meet with officers for an informal meeting, with the exception of Ruffer, State Street and Barings who will attend two meetings per year (one with officers and one with the committee).

The Fund also uses the services of WM Performance Measurers to independently report on Fund Manager Performance.

FUND GOVERNANCE STRUCTURE

Day to day management of the Fund is delegated to the Group Director of Resources. Investment strategy and performance monitoring of the Fund is a matter for the Pensions Committee which obtains and considers advice from the authority's officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required.

The terms of reference for the committee are:

- To consider and agree the investment strategy and statement of investment principles (SIP) for the pension fund and subsequently monitor and review performance

- Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters

- To appoint and review the performance of advisers and investment managers for pension fund investments

- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities)(England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972

The membership of the Pensions Committee reflects the political balance of the Council and the structure of the Pensions Committee during the period April 2013 to May 2013 was as follows:

Cllr Melvin Wallace (Chair) – Conservative Group
Cllr Rebecca Bennett (Vice Chair) – Conservative Group
Cllr Roger Ramsey– Conservative Group
Cllr Eric Munday – Conservative Group
Cllr Ron Ower – Residents Group
Cllr Pat Murray – Labour Group
Cllr Jeffrey Tucker – Independent Residents Group
Union Members (Non-voting) - John Giles (Unison), Andy Hampshire (GMB)
Admitted/Scheduled Body Representative (voting) – Marilyn Clay – Campion Academy (appointed from December 12)

There were some changes made to the elected members of the committee due to Councillor Munday taking on the role of Mayor. From May 2013 to September 2013 the voting Committee members were as follows:

Cllr Rebecca Bennett (Chair) – Conservative Group
Cllr Melvin Wallace (Vice Chair) – Conservative Group
Cllr Roger Ramsey– Conservative Group
Cllr Steven Kelly - Conservative Group
Cllr Ron Ower – Residents Group
Cllr Pat Murray – Labour Group
Cllr Jeffrey Tucker – Independent Residents Group
Heather Foster-Byron – Employer Representative

Following the resignation of the Independent Residents Group from the Pensions Committee and changes to the political balance of the Council, the voting Committee members were changed as follows from September 2013:

Cllr Rebecca Bennett (Chair) – Conservative Group
Cllr Melvin Wallace (Vice Chair) – Conservative Group
Cllr Roger Ramsey– Conservative Group
Cllr Steven Kelly - Conservative Group
Cllr Ron Ower – Residents Group
Cllr Pat Murray – Labour Group
Cllr Fred Osborne – UK Independence Party
Heather Foster-Byron – Employer Representative

Fund Administrator	London Borough of Havering
Actuary	Hymans Robertson
Auditors	PricewaterhouseCoopers LLP (PWC)
Performance Measurement	WM Company
Custodians	State Street Global Services
Investment Managers	Standard Life Investments (UK Equities) until December 2013 Royal London Asset Management (Investment Bonds) UBS (Property) State Street Global Assets (UK/Global Equities – passive) Ruffer LLP (Multi Asset) Baillie Gifford (Global Equities) from April 2012 Baillie Gifford (Multi Asset diversified Growth Fund) from December 2013. Barings (Multi Asset Dynamic Asset Allocation Fund) from December 2013.
Investment Advisers	Hymans Robertson
Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)

PENSION COMMITTEE MEETINGS 2013/14

The Committee met a number of times during 2013/14 and **Annex A** sets out the coverage of matters considered, but the key issues that arose in the period are shown below:

Key issues arising in the period

- **Investment Strategy Implementation**

In line with the March 2013 Statement of Investment Principles, implementation of the Investment Strategy was completed after two Multi Asset managers were appointed in September 2013 and started trading in December 2013.

The Investment Strategy was later revised in July 2013 to include an allocation to Local Infrastructure. Local infrastructure projects are currently being investigated.

- **Agreed 2012/13 Pension Fund Accounts**

Also noted the external auditors report on the accounts for 2012/13

- **Annual Report**

The Pension Fund Annual Report 31 March 2013 was produced and agreed in line with the LGPS (Administration) regulations.

- **Governance Compliance Statement**

In line with the 2008 Local Government Pension Scheme (LGPS) the Committee undertook an annual review of the Pension Fund's Governance Compliance Statement.

- **Statement of Investment Principles**

In line with the 2009 Local Government Pension Scheme (LGPS) and following the investment strategy review, the committee updated the Statement of Investment Principles in July 2013.

- **Whistleblowing Requirements of the Pensions Act**

An annual review was undertaken and no issues were reported.

- **Business Plan**

The Pension Fund Business Plan for 2012/13 was agreed incorporating the work of the pension committee members.

- **Reviewed Fund Managers quarterly performance**

- **Reviewed performance of the Pension Fund's Custodians, Investment Advisor and Actuaries**

- **New Admitted bodies**

Noted the admittance of two new employers into the Fund

- **Collective Investment Fund**

The Committee considered proposals for a Collective Investment Fund/Vehicle and considered the consultation for potential Pension Fund mergers.

- **Changes to LGPS Regulations**

Noted and received a number of reports on changes to the LGPS 2014 scheme, Fair Deal Policy and LGPS (Miscellaneous) Regulations 2012 and pooling of Academies.

PENSION COMMITTEE MEETINGS 2014/15 AND ONWARDS

In addition to the annual cyclical work programme as shown in **Annex C** there are a number of issues that are likely to be considered by the Pensions Committee in the coming year and beyond:

- Review of the Discretions policy in relation to the LGPS 2014 scheme
- Implications of the 2014 LGPS as and when further guidance is released
- Guidance manual for officers on requirements & actions necessary to admit new employers into the fund.
- Consideration of any outcomes of the 2013 Valuation.
- Progression of the introduction of a Collective Investment Vehicle
- Potential Fund mergers
- New Governance arrangements planned for 2015.
- 2014 is an election year so there is a possibility of member changes and training of new committee members.
- Topical issues discussed as appropriate.

INTERNAL & EXTERNAL RESOURCES

The Pensions Committee is supported by the Administrating Authorities' Finance and Administration services and the associated costs are therefore reimbursed to the Administrating Authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts. Estimates for the medium term on Administration and Investment Management expenses follow in this report.

The Pensions Administration service consists of an establishment of 9.8 full time equivalent posts.

The Finance service that supports the pension fund consists of an establishment of 2 full time equivalent posts.

FINANCIAL ESTIMATES

Administrative Expenses

	2011/12 Actual £000's	2012/13 Actual £000's	2013/14 Revised Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
Administration & Processing	522	566	814	630	630
Actuarial Fees	9	30	35	10	10
Audit Fees	35	21	21	21	21
Other Fees	5	5	5	5	5
Other Costs	15	10	10	10	10
TOTAL	**586**	**632**	**802**	**696**	**696**

This report is being produced earlier than usual so the actual costs for 2013/14 have not yet been finalised. The 2013/14 estimates have been revised using latest costs available at the time of writing this report.

The Administration and Processing costs will increase from 2013/14 due to the purchase of an upgraded pension Administration system called ALTAIR from Heywood Limited. The contract is for five years but the 1st year costs include the implementation costs and an upfront licensing fee.

Investment Management expenses

	2011/12 Actual £000's	2012/13 Actual £000's	2013/14 Revised Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
Administration, Management & custody	1,053	1,063	1,100	1,100	1,100
Performance Measurement services	12	12	12	12	12
Other Advisory Fees	73	72	95	25	25
TOTAL	**1,138**	**1,147**	**1,182**	**1,182**	**1,182**

Please note the following regarding the above figures

- Takes no account of any inflationary increases
- Management and custody fees are charged according to the fund value; therefore an average figure has been applied for 2013/14 onwards.
- Based on 2013/14 fund and staffing structures.
- No adjustments have been made to allow for the impact of oneSource

TRAINING AND DEVELOPMENT STRATEGY

Long membership of the committee is encouraged in order to ensure that expertise is developed and maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the term in Council, unless exceptional circumstances require a change.

The majority of training and development is cyclical in nature, spanning the four year membership of the committee. For members, 2013/14 is their last term of office, so the majority of development has been undertaken therefore training during 2013/14 has been tailored to cover specific decisions required.

Training and development took place during 2013/14 to ensure that Members of the Committee were fully briefed in the decisions they were taking.

CIPFA's Knowledge and Skills self-assessment training questionnaire was distributed to members in January 2011 and the common training requirements identified from these questionnaires covered the following areas:

- Investment Strategy – more awareness of the limits placed by regulations on investments within the LGPS

- Outsourcing – pension considerations in relation to outsourcing and Bulk transfers.

- Scheme specific legislation – more knowledge on the features covering the main features of the benefit side of the LGPS.

The Investment Strategy and Outsourcing training took place during 2012/13 and members were given an overview of the new 2014 LGPS in December 2013. Further consideration of the impact and implications of the new 2014 LGPS will be reported to the Committee when further guidance is release.

Training logs are maintained and attendance and coverage can be found in **Annex B**.

The Fund uses the three day training courses offered by the Local Government Employers (LGE) which is specially targeted at elected members with Pension Fund responsibilities. All new members are encouraged and given the opportunity to attend.

Members receive briefings and advice from the Funds Investment adviser at each committee meeting.

The Fund is a member of the CIPFA Pensions network which gives access to an extensive programme of events, training/workshops, weekly newsletters and documentation, including briefing notes on the latest topical issues.

The Pension Fund Accountant also attends quarterly forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

TRAINING PLAN FOR 2014/15 and ONWARDS

Local elections are being held in May 2014 and could result in a change in membership to the Pensions Committee.

It is anticipated that new Governance arrangements for the Local Government Pension Scheme (LGPS) will be introduced during 2015. This could result in a change to the Committee structure. Regardless of the Committee structure the new Code of Practice will include a legal requirement for members of the Pension Committee/Board to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Committee.

The Fund will continue to use the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. In addition to the cyclical training and development that the Committee will have over the lifetime of their membership, training will be provided in the areas where it has been specifically requested or has been identified as required.

The cyclical training that is already being provided will be reviewed against the requirements in the new Code of Practice once it is finalised The training programme will incorporate any areas not currently covered.

The Pensions Regulator is planning to launch an e-learning programme from autumn 2014 and this would be made available for members to use.

Associated training and development will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2014/15 as shown in **Annex C.**

In addition to the cyclical meeting as shown in Annex C, special pension committee meetings will be arranged from time to time to discuss matters that fall outside of the cyclical meetings.

Training will be targeted as appropriate.

PENSIONS COMMITTEE MEEETINGS HELD DURING 2013/14		ANNEX A
MONTH	**TOPIC**	**ATTENDED BY**
30 April 2013 (SPECIAL)	• Considered proposals for participation in a Collective Investment Fund. • Supported the proposed consultation response to changes in legislation on auto-enrolment • Members considered the consultation and draft response on legislation covering the Local Government Pension Scheme (LGPS) 2014. • Considered options for investing in Local Infrastructure Assets and received a report from PricewaterhouseCoopers including Governance & Operational Processes'.	Cllr Melvin Wallace (chair) Cllr Frederick Thompson (sub for Cllr Bennett) Cllr Roger Ramsey Cllr Clarence Barrett (sub for Ron Ower) Cllr Pat Murray John Giles (UNISON)
26 June 2013	• Noted the External 2012/13 Audit Plan for the Pension Fund, including matters relating to fraud. • Pension Fund Performance Monitoring for the quarter ending 31 March 2013, received presentations from the Property Manager, Multi Asset Absolute Return Manager and Global Equity Manager.	Cllr Rebecca Bennett (chair) Cllr Melvin Wallace (vice-chair) Cllr Steven Kelly Cllr Roger Ramsey Cllr Ron Ower John Giles (UNISON) Marilyn Clay (employer representative)
24 July 2013 (SPECIAL)	• Considered and approved the Governance arrangements for Investing in Local Infrastructure. • Considered and agreed amendments to the Statement of Investment Principles to include Local Infrastructure investments. • Considered the discussion paper on proposed new Governance arrangements for the LGPS.	Cllr Rebecca Bennett (chair) Cllr Melvin Wallace (vice- chair) Cllr Roger Ramsey Cllr Steven Kelly Cllr Ron Ower Marilyn Clay (employer representative)
12 September 2013 (SPECIAL)	• Multi Asset Manager Selection Interviews- all day event.	Cllr Rebecca Bennett (chair) Cllr Melvin Wallace (vice chair) Cllr Steven Kelly Cllr Roger Ramsey Cllr Fred Osborne
24 September 2013	• Noted Pension Fund Accounts for the year ending 31 March 2013. • Noted the external auditor's report (ISA260) for the Pension Fund and Officers response to issues raised. • Business Plan/Annual Report on the Work of the Pensions Committee 2012/13. • Pension Fund Performance Monitoring for the quarter ending 31 March 2013,	Cllr Rebecca Bennett (chair) Cllr Melvin Wallace (vice chair) Cllr Steven Kelly Cllr Roger Ramsey Cllr Ron Ower Cllr Denis Breading (sub for Cllr

PENSIONS COMMITTEE MEEETINGS HELD DURING 2013/14		ANNEX A
MONTH	**TOPIC**	**ATTENDED BY**
	received presentations from the UK Equities Manager and the Funds Investment Grade Bonds Manager.	Murray) Cllr Ted Eden (sub Cllr Osborne) John Giles (UNISON)
30 October 2013	• Noted the views of officers on the performance of the Fund's Actuary for the period 1 April 2012 to 31 March 2013. • Noted the views of officers on the performance of the Fund's Investment Advisor for the period September 2012 and September 2013. • Noted the views of officers on the performance of the Fund's Custodian for the period April 2012 to September 2013. • Considered and agreed changes as necessary to the Governance Compliance Statement. • Noted the results of the Whistle Blowing Annual review and that no breaches had been reported. • Agreed the 2012-2013 Pension Fund Annual Report. • Verbal update on proposed Pension Fund merger and advised that an external organisation will be appointed by the DCLG to review options.	Cllr Rebecca Bennett (chair) Cllr Melvin Wallace (vice chair) Cllr Steven Kelly Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray Cllr Fred Osborne John Giles (UNISON)
17 December 2013	• Pension Fund Performance Monitoring for the quarter ending 31 September 2013, received presentation from the Fund's Property Manager, the UK/Global Equities Passive Manager and the Fund's Global Equity Manager. • Considered the risks and impact of Ill Health insurance for the whole fund. • Noted the admission of Sodexo UK and Ireland and Breyer Group PLC as Transferee Admission Bodies into the Fund. • Noted the ministerial statement regarding Academies and pooling and agreed that there will be no changes to the current arrangements for assessing academy employer contribution rates. • Noted the new guidance setting out a reformed Fair Deal Policy. • Noted the changes to the Local Government Pension Scheme (Miscellaneous) Regulations 2012. • Noted the brief overview of the new Local Government Pension Scheme LGPS) 2014	Cllr Rebecca Bennett (chair) Cllr Melvin Wallace (vice chair) Cllr Steven Kelly Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray Cllr Fred Osborne Andy Hampshire (GMB) Heather Foster-Byron (employer representative)

- Please note that three members constitute a quorum.
- Target dates for issuing agendas were met.

PENSIONS COMMITTEE MEMBER TRAINING 2013/14

ANNEX B

DATE	TOPIC COVERED	LOCATION	COST	ATTENDED BY
30 April 2013	PricewaterhouseCoopers delivered briefing as part of the special committee meeting report on Infrastructure, covering: o Objectives of LBH Pension Fund o Governance & Operational Processes o High Level Implementation Plan	Town Hall	Part of the project cost	Cllr Melvin Wallace Cllr Frederick Thompson (sub for Cllr Bennett) Cllr Roger Ramsey Cllr Clarence Barrett (sub for Ron Ower) Cllr Pat Murray John Giles (UNISON)
12 Sept 2013	Hymans – Fund Investment Adviser delivered pre-interview training for Multi Asset Manager appointments, covering: o Reminder of Investment Strategy o Reminder of mandate brief o What are Multi Assets and different types of mandates o Tools of the Multi Asset Manager and explained High Yield Bonds, Insurance Linked securities and Hedge Funds.	Town Hall – Prior to Special all day Committee meeting	Included as part of the multi asset search fees	Cllr Rebecca Bennett Cllr Melvin Wallace Cllr Roger Ramsey Cllr Steven Kelly Cllr Fred Osborne
24 Oct 2013	Pensions Overview delivered by Pension fund Accountant	Central Library	Officer time	Cllr Fred Osborne Cllr Ted Eden
02 Dec 2013	Pensions Overview delivered by Pension fund Accountant	Central Library	Officer time	Heather Foster-Byron (employer representative)
14 Jan 2014	CIPFA Conference – Actuarial Conference 2014	Canary Wharf	Free - Included as part of subscription	Heather Foster-Byron (employer representative

DATE	TOPIC COVERED	LOCATION	COST	ATTENDED BY
20 Feb 2014	Hymans – Fund's Actuary delivered training on the 2013 Valuation results, covered: ○ How the valuation was undertaken ○ Assumptions used ○ What's happened since 2010 and 2013 valuations ○ Impact of 2014 scheme	Town Hall	Included as part of Fee schedule	Cllr Rebecca Bennett Cllr Melvin Wallace Cllr Roger Ramsey Cllr Fred Osborne Heather Foster- Byron

INDICATIVE PENSIONS COMMITTEE CYCLICAL MEETINGS AND COVERAGE 2014/15

ANNEX C

	JUNE 2014	SEPTEMBER 2014	NOVEMBER 2014	DECEMBER 2014	MARCH 2015
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of March: a) Multi Asset Manager - Diversified Fund a) Pooled Global Equity Manager b) Multi Asset Manager – Absolute Return ▪ External Audit Plan	▪ Overall Monitoring Report on Pension Fund to end of June: a) UK Bonds Manager b) Property Manager ▪ Pension Fund Accounts 12/13	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Administration Strategy (regs change) if necessary ▪ Pension Fund Annual Report	▪ Overall Monitoring Report on Pension Fund to end of September: a) Pooled Global Equity Manager b) Multi Asset Manager - Diversified Fund b) Multi Asset Manager – Dynamic Asset Allocation	▪ Overall Monitoring Report on Pension Fund to end of December: a) UK Bonds Manager: b) Property Manager c) Passive Global Equity Manager
Officer Meeting	Meeting: May 14 (date TBC) ▪ UK Bonds Manager ▪ Passive Equity Manager ▪ Multi Asset Dynamic Asset Allocation Manager	Meeting: Aug 14(date TBC) ▪ Global Equity Manager ▪ Multi Asset Manager - Diversified Fund ▪ WM presentation Meeting ▪ Advisor Review Custodian Review	No officer meeting	Meeting: Nov 14 (date TBC) ▪ Property Manager ▪ UK Bonds Manager	Meeting: Feb 15 (date TBC) ▪ Multi Asset Manager – Diversified Growth ▪ Global Equity Manager ▪ Multi Asset Manager – Absolute Return
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **25 March 2014**	**REPORT**

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2013**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	Debbie Ford Pension Fund Accountant (01708) 432569 debbie.ford@havering.gov.uk
Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 31 December 2013

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 December 2013. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 31 December 2013 was **2.7%.** This represents an under performance of **0.7%** against the combined tactical benchmark and an out performance of **3.7%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31 December 2013 was **15.8%.** This represents an out performance of **2.3%** against the annual tactical combined benchmark and an out performance of **19.2%** against the annual strategic benchmark.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark since they became active on the 14th February 2005. These results are shown later in the report.

RECOMMENDATIONS

That the Committee:

1) Considers Hymans performance monitoring report and presentation (Appendix A).
2) Receive a presentation from the Funds Investment Grade Bonds Manager (Royal London).
3) Notes the summary of the performance of the Pension Fund within this report.
4) Considers the quarterly reports provided by each investment manager.
5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
6) Considers any points arising from officer monitoring meetings (section 4 refers.
7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

REPORT DETAIL

1. Background

1.1 The Fund undertook a full review of the Statement of Investment Principles (SIP) during 2012/13 and following the appointments of the Multi Asset Managers in September 2013, who commenced trading in December 2013; this almost completes the fund's restructuring as the Fund is still considering options for an investment in Local Infrastructure.

1.2 A strategic benchmark has been adopted for the overall Fund of Gilts + 1.8% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term. **The main factor in meeting the strategic benchmark is market performance.**

1.3 Individual manager performance and asset allocation will determine the out performance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

1.4 Changes to the Asset Allocation targets were agreed by members at the Pensions Committee meeting on the 26 March 2013 and 24 July 2013. The long term strategy of the fund adopted at those meetings was to reduce exposure to equities and invest in multi asset strategies. Two new multi asset Managers (Barings and Baillie Gifford Diversified Growth Fund) were appointed to the Fund in September 2013. During the quarter the Fund used the services of a Transitional Manager (Nomura) to transfer cash from Standard Life to Barings and cash was transferred from State Street Global Assets to the Baillie Gifford Diversified Growth Fund. Trading commenced for both new managers in December 2013.

1.5 The following table reflects the asset allocation split following the commencement of trading of the new multi asset managers:

Manager and % of target fund allocation	**Mandate**	**Tactical Benchmark**	**Out performance Target**
State Street (SSgA) 8%	UK/Global Equities - passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
Baillie Gifford Street 17%	Global Equities - Active	MSCI AC World Index	1.5 – 2.5% over rolling 5 year period
Royal London Asset Management 20%	Investment Grade Bonds	➢ 50% iBoxx Sterling Non Gilt Over 10 Year Index ➢ 16.7% FTSE Actuaries UK Gilt Over 15 Years Index ➢ 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	0.75%
UBS 5%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer 15%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%.	To outperform the benchmark
Barings – Dynamic Asset Allocation Fund 20%	Multi Asset	Sterling LIBOR (3 months) +4%	To outperform the benchmark
Baillie Gifford – Diversified Growth Fund 15%	Multi Asset	UK Base Rate +3.5%	To outperform the benchmark

1.6 UBS, SSgA, Baillie Gifford and Barings manage the assets on a pooled basis. Royal London and Ruffer manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.

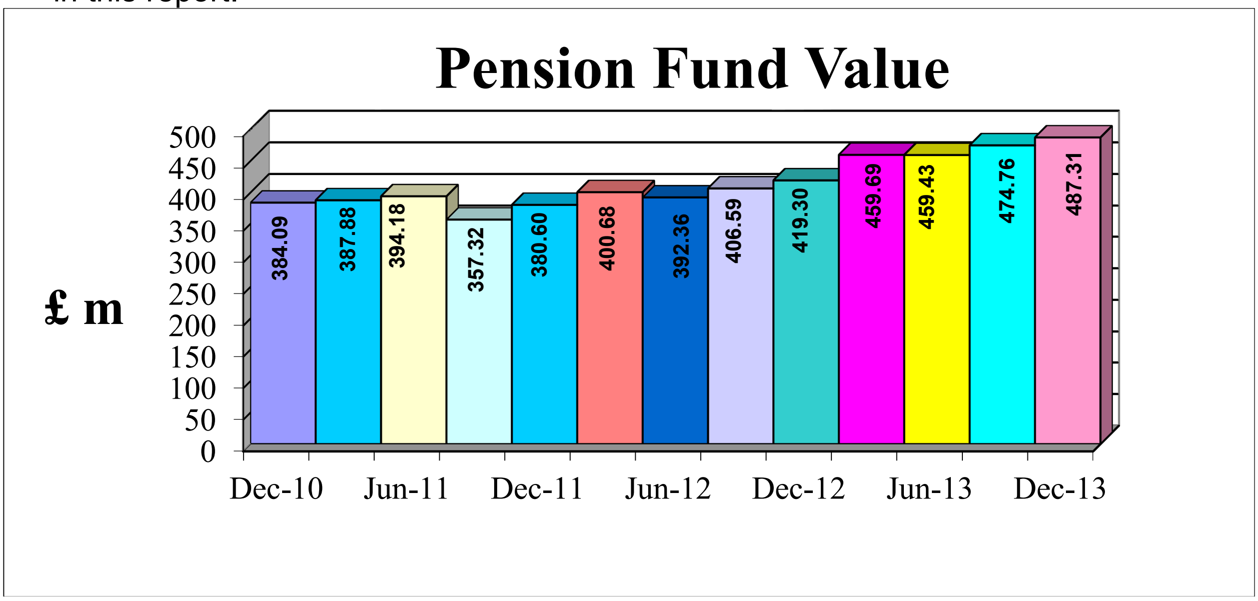
1.7 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

1.8 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Multi Asset Managers (Ruffer), (Barings) and (Baillie Gifford) and the Passive Equity Manager (SSgA) who will attend two meetings per year, one with Officers and one with the Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers performance, arrangements can be made for additional presentations.

1.9 Hyman's performance monitoring report is attached at **Appendix A.**

2. Fund Size

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 31 December 2013 was **£487.31m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes income. This compares with a fund value of £474.75m at the 30 September 2013; an **increase** of £12.55m. The movement in the fund value is attributable to an increase in assets of £13.55m and a decrease in cash of (£1.m). The internally managed cash level stands at **£2.72m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£2.72m** follows:

CASH ANALYSIS	**2011/12**	**2012/13 Updated**	**2013/14 30 Sep 13**
	£000's	£000's	£000's
Balance B/F	**-8495**	**-1194**	**-3474**
Benefits Paid	31123	31272	24373
Management costs	1606	1779	1305
Net Transfer Values	-58	-1284	-868
Employee/Employer Contributions	-30194	-30222	-23973
Cash from/to Managers/Other Adj.	4869	-3780	0
Internal Interest	-45	-45	-85
Movement in Year	**7301**	**-2280**	**752**
Balance C/F	**-1194**	**-3474**	**-2722**

2.3 As agreed by members on the 27June 2012 a cash management policy has now been adopted. The policy sets out that should the cash level fall below the de-minimus amount of £2m this should be topped up to £4m. This policy includes drawing down income from the bond and property manager.

3. Performance Figures against Benchmarks

3.1.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

	Quarter to 31.12.13	**12 Months to 31.12.13**	**3 Years to 31.12.13**	**5 years to 31.12.13**
Fund	2.7%	15.8%	8.3%	11.5%
Benchmark return	3.4%	13.2%	7.7%	10.8%
*Difference in return	-0.7%	2.3%	0.6%	0.6%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.1.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts over 15 years + 1.8% Net of fees) is shown below:

	Quarter to 31.12.13	**12 Months to 31.12.13**	**3 Years to 31.12.13**	**5 years to 31.12.13**
Fund	2.7%	15.8%	8.3%	11.5%
Benchmark return	-1.0%	-2.9%	9.9%	7.8%
*Difference in return	3.7%	19.2%	-1.4%	3.4%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.1.3 The following tables compare each manager's performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

QUARTERLY PERFORMANCE (AS AT 31 DECEMBER 2013)

QUARTER	Standard Life	Royal London	UBS	Ruffer	SSgA	Baillie Gifford Global Alpha
Return (performance)	1.9	-0.3	4.6	0.9	4.5	5.1
Benchmark	5.5	-0.8	4.3	0.1	5.0	5.0
***Over/(Under) Performance vs. Benchmark**	**-3.4**	**0.4**	**0.3**	**0.8**	**-0.5**	**0.1**
TARGET	6.0	-0.6	n/a	n/a	n/a	n/a
*** Over/(Under) Performance vs. Target**	**-3.9**	**0.2**	**n/a**	**n/a**	**n/a**	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Barings and Baillie Gifford Diversified Fund not included as they were not invested for entire period.

ANNUAL PERFORMANCE (LAST 12 MONTHS)

ANNUAL	Standard Life	Royal London	UBS	Ruffer	SSgA	Baillie Gifford
Return (performance)	23.8	0.9	5.4	9.6	20.9	27.2
Benchmark	20.8	-1.0	9.1	0.5	21.0	21.1
***Over/(Under) Performance vs. Benchmark**	**3.0**	**1.9**	**-3.7**	**9.1**	**-0.1**	**5.0**
TARGET	22.8	-0.2	n/a	n/a	n/a	n/a
*** Over/(Under) Performance vs. Target**	**0.8**	**1.1**	**n/a**	**n/a**	**n/a**	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.

4. Fund Manager Reports

4.1. UK Equities (Standard Life)

a) Cash was transferred from Standard Life to Barings in two instalments on the 10 and 17 December 2013. The total amount transferred from Standard Life to Barings was £97,577,212.23.

4.2. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)

a) Representatives from Royal London are due to make a presentation at this committee therefore a brief overview of their performance as at 31 December 2013 follows.

b) The value of the Royal London portfolio fund saw a decrease of .36% in value since the previous quarter.

c) Royal London delivered a return of -0.3% but outperformed the benchmark by 0.4% over the quarter. The portfolio outperformed against the benchmark over the year by 1.9%.

4.3. Property (UBS)

a) In accordance with agreed procedures officers met with representatives from UBS on the 13 February 2014 at which a review of their performance as at 31 December 13 was discussed.

b) The value of the fund as at 31 December 13 rose by 3.36% since the previous quarter.

c) UBS delivered a return of 4.6% out performing its benchmark by 0.3% over the quarter. The Fund is behind the benchmark over the year by -3.7%.

d) The number of properties in the fund currently stands at 30 with a void rate of 5.86%, which is significantly lower than the benchmark of 10.1%. Average property yield is currently 6.99%.

e) As at the date of the meeting there was no redemption queue.

f) UBS stated that the modernisation of the fund with regard to the review into the structure and governance of the fund is going well. The independent review by John Forbes Consulting is now completed, with the recommendations approved in principle by the Fund's General Partner, US Global Asset Management. The Key proposals are:

- The introduction of an Independent Supervisory board with oversight of the Manager and Fund governance, with the ability to facilitate dialogue between unit holders and the management team.
- The modernisation of the existing redemption provisions

g) UBS were asked if the modernisation review will impact the fund and they said that the salary costs will be charged to the fund but will only have a small impact. They are now actively recruiting for members for the new Supervisory Board, with experience from the Investment, Legal and Banking worlds. Members will be rotated and elected annually. It is anticipated that the Fund modernisation proposals will go before the EGM of investors in March/April 2014 and the Supervisory Board will be set up after this date.

h) The improving property market is driving capital growth with Central London leading the way. The funds industrial assets also performed strongly, driven in part by active leasing programmes. Several new leases were completed, including two new leases at Wardley Industrial Estate, two leases at Springfield Outlet Centre and a 12 year at St Helens.

i) Two sales were completed over the quarter a shopping centre in Yeovil, and an industrial property in Wellingborough.

j) Strategy for future purchases will be in multi let industrial, London and South East assets with diversified income streams and long term asset management potential.

k) UBS was asked if they planned on selling any of the Central London assets to capitalise on the current market buoyancy. They said that they have very recently completed an exchange of a London Office, The Rex Building for a multi let industrial estate in, Reading, at no cost to the fund. This also rebalances the weighting to the Industrial sector in the fund in line with their fund repositioning.

l) UBS has generated positive returns over the last two quarters and they were asked if they are in a position to maintain this outperformance now the fund has stabilised. UBS stated that quarter on quarter this may be difficult but believe that they can maintain outperformance over the long term.

m) UBS were asked to explain their process for selecting new purchases and how they determine the contribution new properties will have to future performance. They said that their strategy characteristics are quality over income, they look to purchase properties where they can maximise redevelopment options, increasing holdings in Industrial multi let properties where there are multiple asset management opportunities. The UK Funds strategy for 2014 sets down clear and measurable performance and portfolio targets, covering fund style, sector weightings, asset management and investment activity, performance attribution, cash/debt strategy and risk management, for UBS to deliver improved and sustained performance over the coming 12 months and beyond.

n) Following the events of the past two years UBS were asked if there was likely to be any changes to the team responsible for the management of the Fund and UBS mentioned that changes to the staffing restructure has already started with changes in staff and management reporting lines.

o) As previously reported UBS introduced a fee rebate to lower the Partnership's annual management fee from 0.75% per annum to 0.45% between 1 Jan 2013 and 31 Dec 2014 for continuing investors. Payments of rebates will be made annually at the end of each calendar year for 2013 & 2014, and will be made directly to investors. First rebate was received in February 2014.

p) As well as looking at the modernisation of the fund, UBS outlined the future stating that they still believe the fund has a potential to deliver outperformance of 9.5% p.a. over the next five years.

q) No whistle blowing issues or governance was reported.

4.4. Multi Asset Manager (Ruffer)

a) In accordance with agreed procedures officers will only meet with representatives from Ruffer once in the year with the other meeting to be held with members. Ruffer attended their last meeting with members on the 26 June 13 Pensions Committee meeting. Officers met with representatives from Ruffer on the 13 February 2014.

b) When Officers last met with Ruffer in February 2013, the value of the fund was £61,907,182 as at the end of January 13. The values of the fund as at 31 December 2013 was £64,804,848, this represented an increase of 4.7% during 2013.

c) Ruffer had outperformed the benchmark in the quarter by 0.7% (net of fees) and outperformed the benchmark in the year by 9.1% (net of fees).

d) The biggest contributor to the positive performance continued to be Japanese equities, investor confidence was boosted by a weakening in the Yen fuelled by Quantitative Easing announced by the Bank of Japan in April. Good stock selection enhanced returns in Western Equities.

e) The main negative contributor that hurt performance was exposure in Gold and Gold mining equities – gold prices moved sharply lower as bond yields rose producing corresponding falls in mining shares.

f) Ruffer was asked what is their current protective positioning within the portfolio bearing in mind that the protective assets hurt performance over 2013. They said that inflation linked bonds are the best protection against financial repression; the increased cash holding will enable them to react quickly to any unforeseen changes or opportunities in the market. They also said prospects for Gold and Gold mining stocks are expected to rise due to the low prices last year, but believe that it is the ultimate insurance protection and 4-5% is an appropriate holding.

g) Ruffer said that Japanese equity still offers potential for good returns, Japan is now pursuing the most aggressive monetary stimulus among the major economies, the new government and Bank of Japan appear determined to invigorate the market. They said that Japanese equities include most of the financial exposure, they feel Japanese Banks are safer than most, and that they are rotating in stocks to benefit from the improving domestic economy.

h) No whistle blowing issues or governance was reported.

4.5. Passive Equities Manager (SSgA)

a) In accordance with agreed procedures officers will only meet with representatives from SSgA once in the year with the other meeting to be held with members. SSgA attended their last meeting with members on the 17 December 2013 Pensions Committee meeting. Officers last met with representatives from SSgA on the 20 May 2013.

b) £25m was withdrawn on the 25 November 2013 and a further £45m was withdrawn on the 4 December 2013. The total £70m was transferred to the new Baillie Gifford Diversified Growth Fund.

c) SSgA underperformed the benchmark over the quarter by -0.5%

4.6. Global Equities Manager (Baillie Gifford)

a) In accordance with agreed procedures officers met with representatives from UBS on the 13 February 2014 at which a review of their performance as at 31 December 13 was discussed.

b) Since the last quarter the portfolio increased 5.1%.

c) Baillie Gifford have outperformed the benchmark over the quarter by 0.1% (net of fees) and outperformed the benchmark by 5% (net of fees) over the last year. Since inception they have outperformed the benchmark by 3.5%.

d) Baillie Gifford stated that the positive performance came from a wide range of stock contributors with no major detractors.

e) Their fund positioning remains unchanged over the past quarter, they continued to increase exposure to information technology & innovation and the focus in Emerging Markets continues to shift from infrastructure to consumer- oriented companies.

f) Current positioning of the portfolio has holdings in Growth Stalwarts (strong Brands) 23%, Rapid Growth (fastest growth) 24%, Cyclical

Growth (longer term performance) 37%, Latent Growth (stocks most out of favour with the markets) 14% and cash of 3%.

g) Activity during the quarter included some new purchases in Twitter, Bank of Ireland and Tullow Oil. Increased holdings in Qualcomm, Japan Exchange Group, TD Ameritrade, First Republic Bank, M&T Bank, Tokyo Electron and Royal Caribbean Cruises. Completed Sales in Omnicon, BIM Birlesik Magazalar Industries and Vodaphone. They also reduced holdings in Amazon, Trip Advisor and Svenska Handelsbanken.

h) Baillie Gifford was asked for their rational for the addition of the holdings in Twitter and was asked whether it has potential for growth. . They said that they are confident for the potential of growth, with comparison with other social network sites. It is a rapidly growing blogging network which has a scalable revenue model, meaning profits can be increased with relatively limited capital investment. The user base is over 215m globally with only a fraction of advertising being seen by the users but scale of growth in this area is expected to be significant.

i) Baillie Gifford is aware that they need to closely monitor other internet holdings, as fast growing companies (Twitter for example) will encroach on other's territories. Winners in technology have increasing taken a large share of the spoils which means that there will be large losers.

j) Baillie Gifford was asked for their views of the US domestic economy and the announcements on the gradual withdrawal of quantitative easing and whether the portfolio is positioned to withstand likely volatility around this economic uncertainty? Baillie Gifford do not agree that tapering is a bad thing and a threat to market health and whilst this is likely to drive further volatility, the positive background is that the US domestic economy has continued to show steady growth. Tapering has been better received by the markets in the last quarter than earlier in the year and they see a move towards a more normal monetary position as a sign of a stronger economy.

k) Overall, Baillie Gifford's outlook for the portfolio over the longer term indicates that bouts of volatility may continue but believes this provides opportunity for stock pickers. They are optimistic that the longer term investment case remains intact. They will continue to search for companies which are in good shape but believe that their stock driven approach is well placed to capitalise on long term opportunities.

l) Baillie Gifford distributed a paper covering their research agenda for 2014 and will provide updates during the year.

m) At their next meeting Baillie Gifford will cover both the Global Alpha Fund and the new Diversified Growth Fund.

n) No governance or whistle blowing issues were reported.

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which is available for scrutiny in the Members Lounge.

2. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.

3. Receive quarterly information from the Investment Managers, detailing new Investments made.

   - Points 1 and 3 are contained in the Managers' reports.

   - With regard to point 2, Members should select a sample of the votes cast from the voting list supplied by the managers placed in the Member's room which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.

- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The manager attending the meeting will be from:

  Royal London

- Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

IMPLICATIONS AND RISKS

Financial Implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Standard Life Quarterly report to 31 Dec 2013
Royal London Quarterly report to 31 Dec 2013
UBS Quarterly report to 31 Dec 2013
Ruffer Quarterly reports 31 Dec 2013
State Street Global Assets reports to 31 Dec 2013
Barings Quarterly Reports 31 Dec 2013
Baillie Gifford Quarterly Reports 31 Dec 2013
The WM Company Performance Review Report to 31 Dec 2013
Hyman's Monitoring Report to 31 Dec 2013

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